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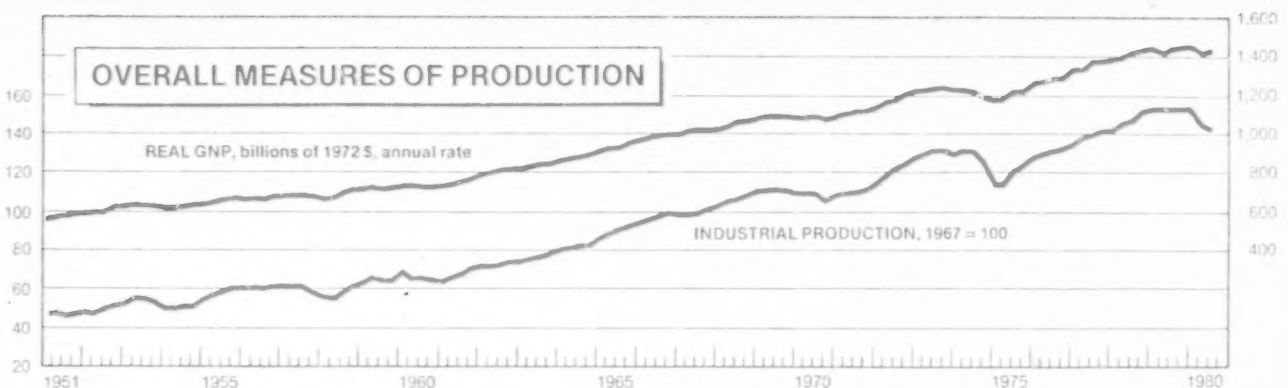
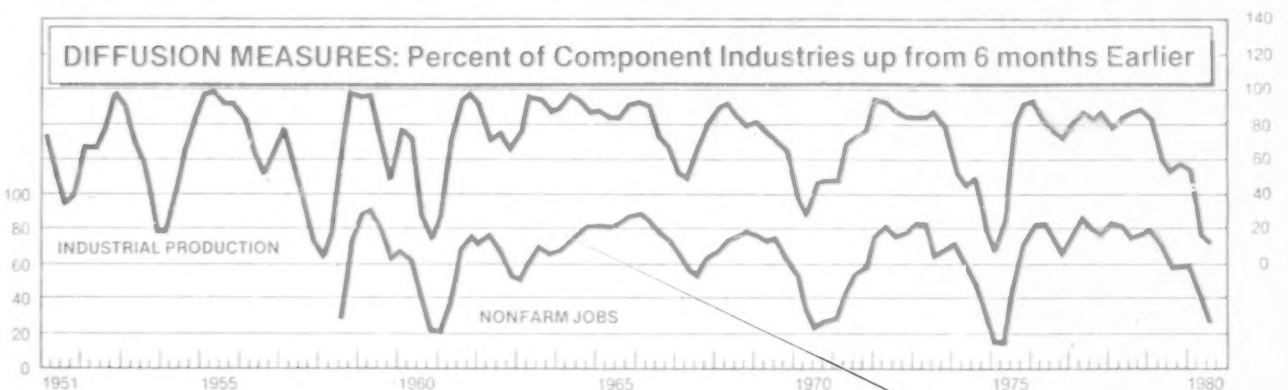
THE CONFERENCE BOARD

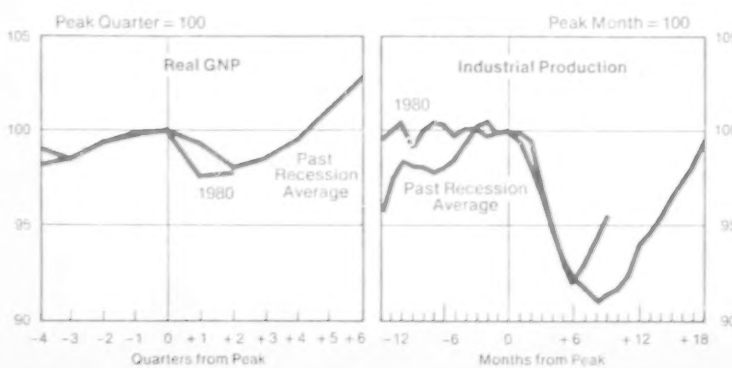
The 1980 Recession in Perspective

Economic Road Maps
Nos. 1892-1893 December, 1980

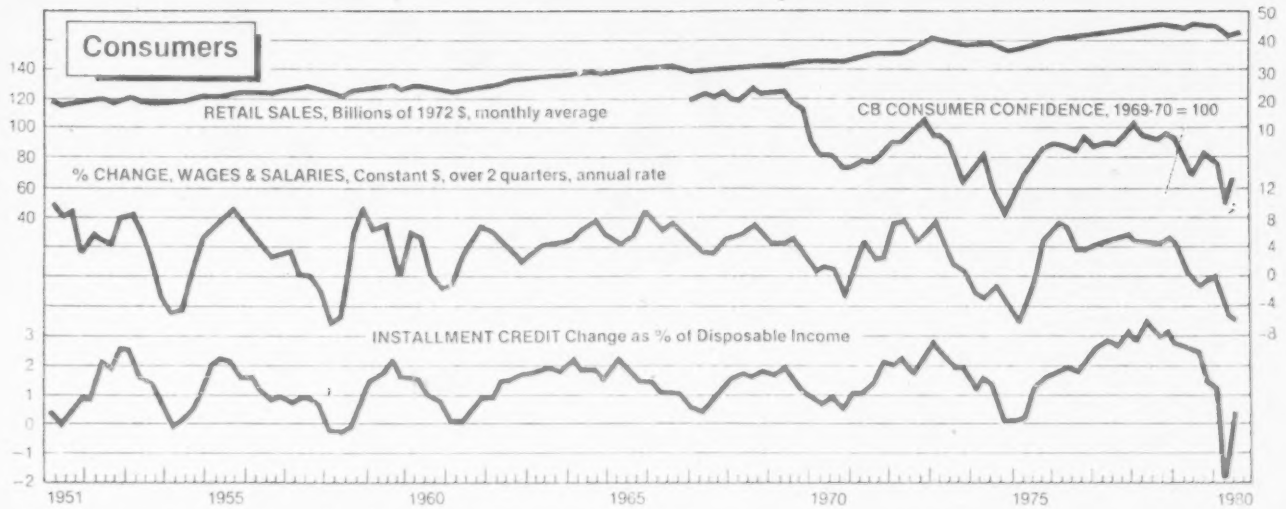
According to the National Bureau of Economic Research, the U.S. economy reached a business cycle peak in January 1980 and then moved into the seventh recession since World War II. The NBER, a private organization that is the accepted judge of the cycle, has not yet designated the trough date, but economists feel that it was around August and a two-quarter recession is shaded in these charts. In addition to the NBER-dated recessions, there was a quasi-recession in 1966-67 and it also is shaded. The 1980 recession was led by autos and housing, but the diffusion measures below show that weakness was as pervasive as in past recessions. Although the slump generally resembled past patterns, the early recovery showed a critical difference—a prompt upturn in inflation and interest rates that has raised serious questions about the durability of the expansion trend.





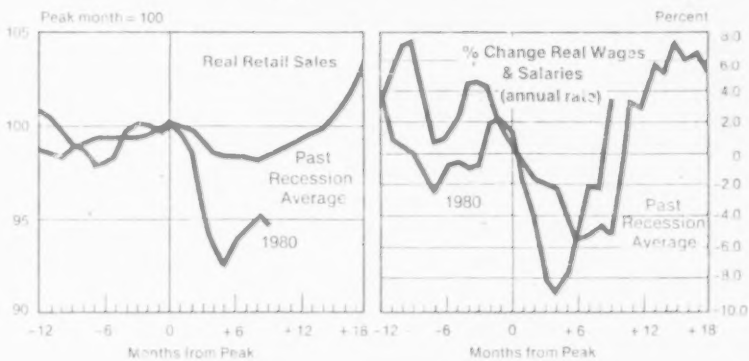


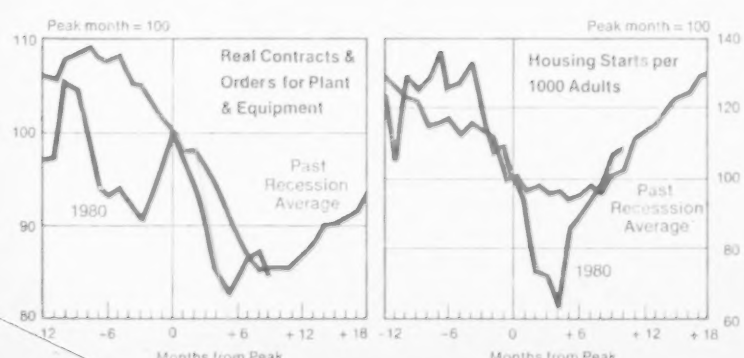
The "past recession averages" drawn in the small charts on this and the following pages are averages of five recessions beginning with that of 1953-54 (but omitting the 1966-67 quasi-recession). The 1980 declines in real GNP and industrial production were briefer than the past recession average, and the real GNP decline was also sharper than average. This was followed by a tiny GNP rise in the third quarter and it is expected that the fourth quarter will show at best another very small gain.



When income growth slowed, a slump in consumer markets was inevitable. The final blow was delivered by the consumer credit controls instituted last March, which precipitated an extraordinarily large net repayment of debt in the second quarter. The associated drop in retail volume was brief but very sharp. There was a brisk initial rebound, but now there is a question as to just how strong retail sales really are.

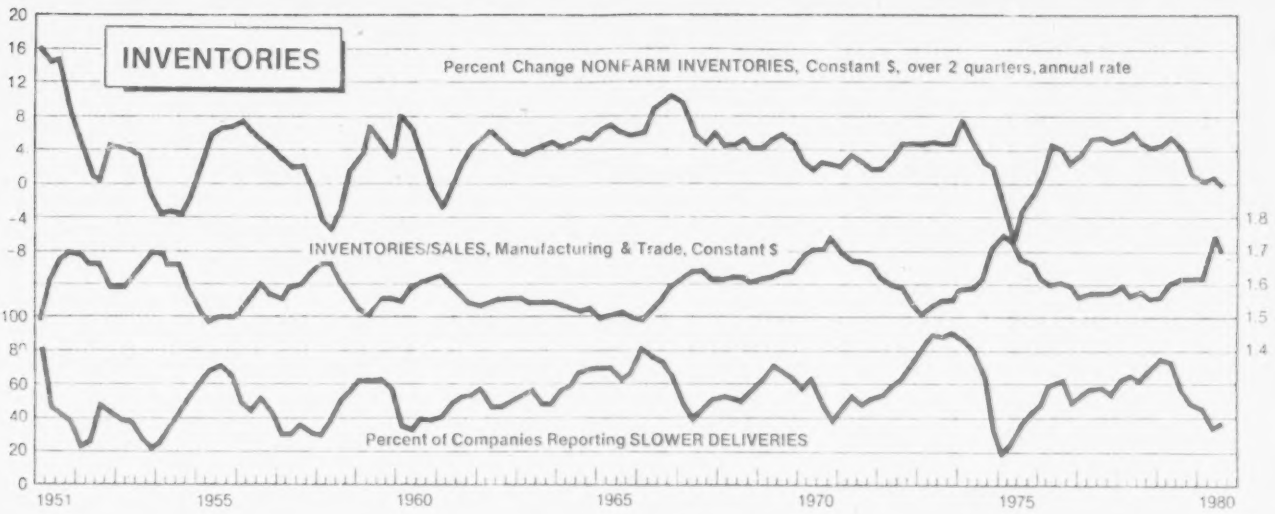
Housing starts also declined much more sharply in 1980 than in the "average recession." The high cost and limited availability of





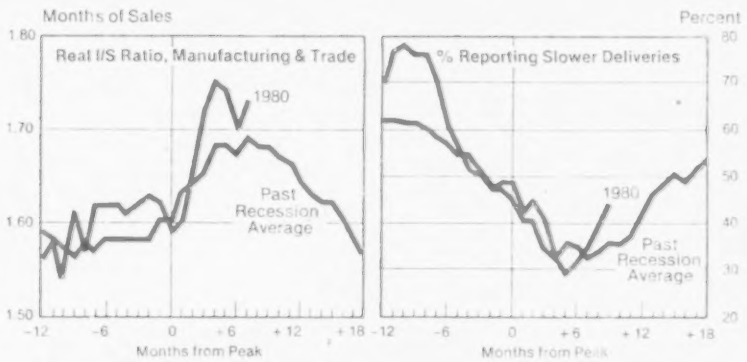
mortgage credit were the main reasons for the slump, rather than any overbuilding such as has been associated with some recessions. Nor was business capital investment in any serious imbalance in 1980. The shrinkage of orders for plant and equipment was in line with past patterns and presages a soft year for capital investment in 1981—not surprising since capital investment always lags after the overall economy.

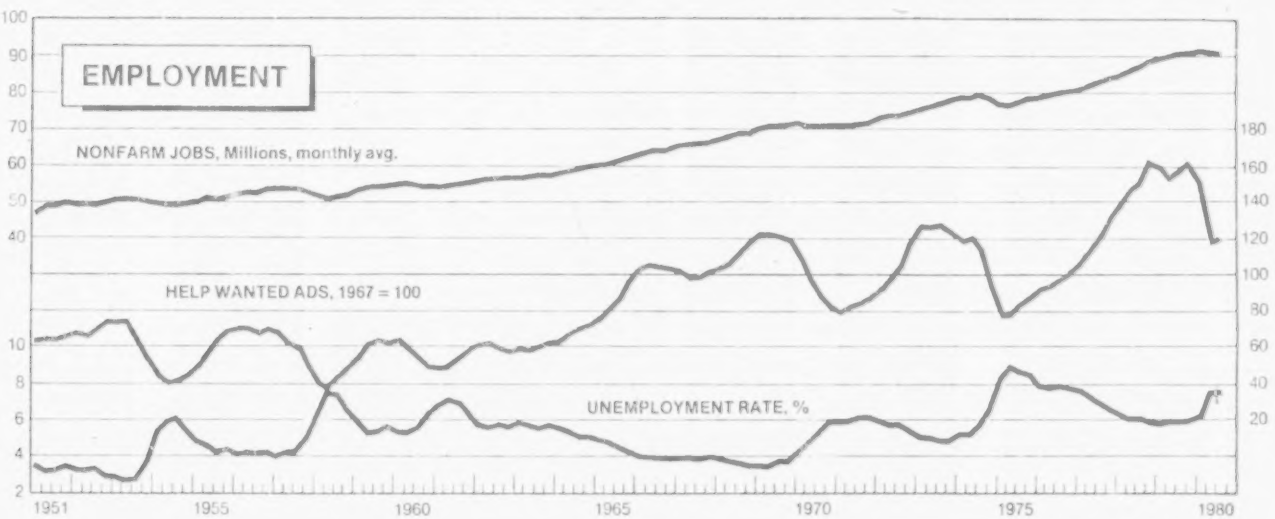
Inventory difficulties are a common feature of recessions. Prior to the 1980 recession,

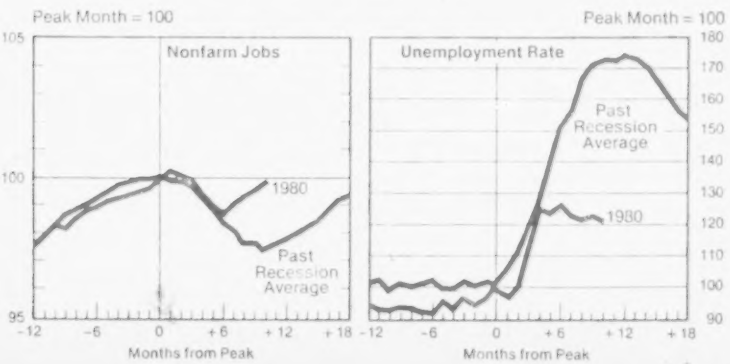


however, inventory growth didn't get seriously out of hand. The inventory-sales ratio did shoot up, but the adjustments that had to be made were not traumatic.

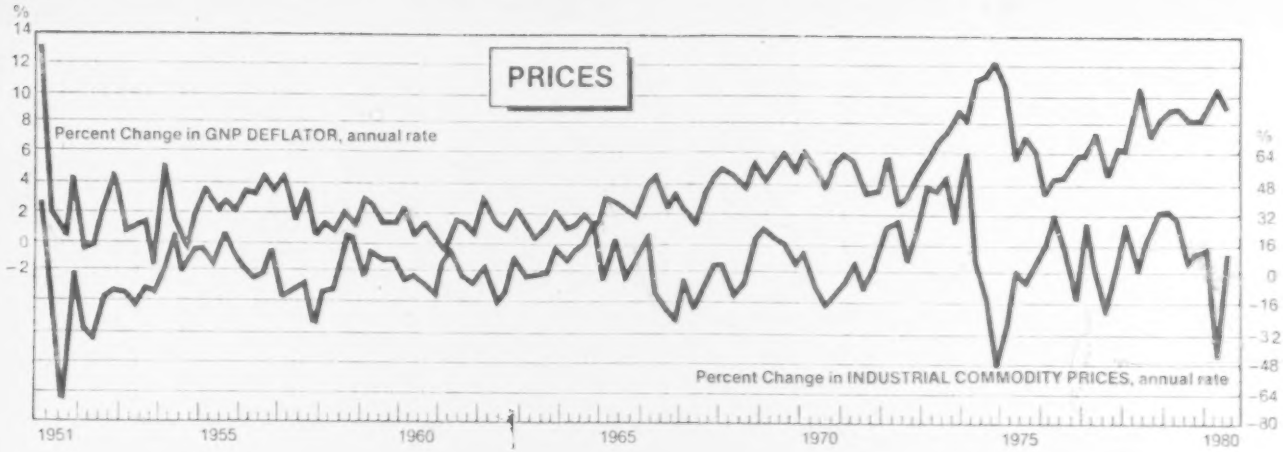
Labor market data give striking evidence of the brevity of the 1980 recession. Nonfarm employment bottomed out only 6 months after the business cycle peak and only a bit more than 1% under the peak. In the average of past recessions, employment shrank about 3% over a span of 10 months. Similarly, the unemployment rate did not rise nearly as much in 1980 as in past recessions.







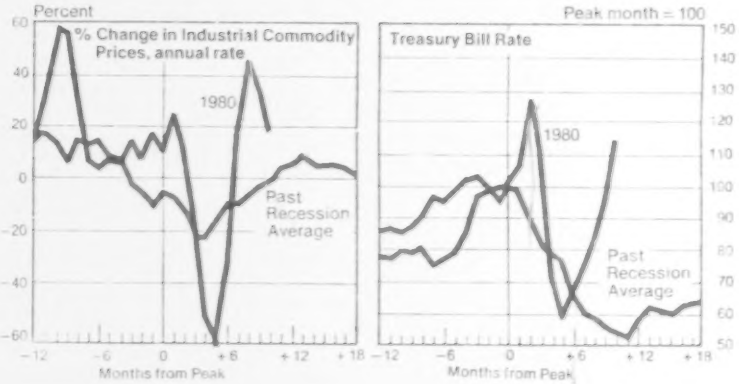
The usual pattern is for inflation to ease after recession, because markets have weakened and labor productivity is improving. But the 1980 slump seems to have made little dent in inflation and probably did not reduce expectations of future inflation. Interest rates, which move with the inflation rate, increased enormously in late 1980. This is very much contrary to past patterns and has generated doubt about the

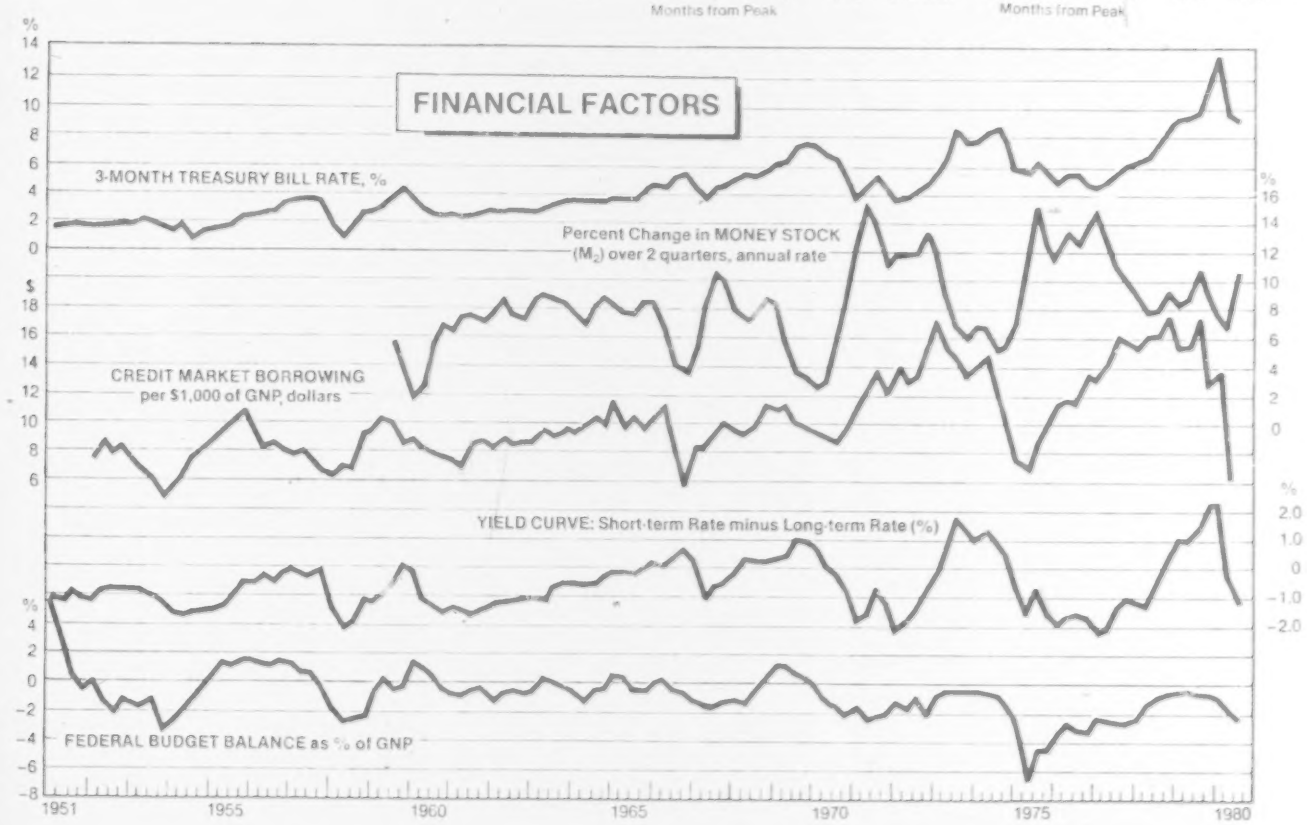


prospects for continued expansion. Another element in the current interest rate picture is the Federal Reserve's determination to hold down the growth of money and credit, a determination that has not figured significantly at the comparable phase of past recoveries.

Lora S. Collins

Sources: Federal Reserve; Department of Commerce; Department of Labor; The Conference Board.





ECONOMIC ROAD MAPS

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